

KENO REVENUE

STATE OF NEVADA
GAMING CONTROL BOARD
GAMING AUDIT PROCEDURES MANUAL

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KENO GAME TERMINOLOGY

The following terminology is applicable to keno game revenue:

Add-ticket	A ticket used to register the bet of other tickets.
Back-up Power Supply	If an electrical failure should occur, the computer should have a power supply to keep running. Not necessarily a generator, it's usually called a UPS (uninterruptable power supply).
Ball check	A ticket on which is noted the numerical sequence of the drawn winning numbers (also known as the "run down").
Bank	The game's operating funds; money.
Blower	A device used in a keno game to mix the numbered balls and blow them individually into the rabbit ears or other device when drawn.
Cage	The receptacle from which the balls are drawn (also known as a "goose" or "fish bowl").
Caller	The person who calls the numbers as the balls are drawn.
Catch	The amount of winning numbers that appear within the marked numbers of a ticket.
Close	The time during the drawing of each game after which no ticket wagers are taken.
Combination ticket	A ticket with a combination of wagers on varying amounts of spots.
Condition	The manner in which a ticket wager is made. A ticket is conditioned to indicate how the wager is applied.
Desk	The area in which the wagers of record (i.e., inside tickets) are kept.
Deskman	A person who authorizes payment of winning tickets and verifies payouts.
Duplicate ticket	The player's ticket copy (also known as the "outside ticket").
Exception Report	A report created by a computer to list all the unusual happenings during the shift. Exception reports will include items like voided tickets, password changes, changes in system parameters, changes in data files, etc.

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Flashboard	A numbered board showing the results of each drawing by lighting the winning numbers.
Game	A sequence of events beginning with the placing of wagers and ending with the payment of winning wagers, identified by a game number (also known as a “race”).
Goose	The receptacle from which the balls are drawn (also known as a “cage”).
Hold	The win/write (total amount wagered) percentage.
Inside ticket	The customer's presented ticket marked with their selection of numbers and amount wagered.
Keno audit	A function performed by an independent party, normally the accounting department, which includes totaling write and payouts and checking compliance with established payout procedures.
Live ticket	Either copy of a played ticket before the results are known or, in the case of a win, before the win is paid.
Lottery	NRS 462.105. Lottery means any scheme for the disposal or distribution of property, by chance, among persons who have paid or promised to pay any valuable consideration for the chance of obtaining that property, or a portion of it, or for any share or interest in that property upon any agreement, understanding or expectation that it is to be distributed or disposed of by lot or chance, whether called a lottery, raffle or gift enterprise, or by whatever name it may be known. The term lottery does not include a promotional scheme conducted by a licensed gaming establishment in direct association with a licensed gaming activity, contest or tournament. All lotteries except for charitable lotteries are illegal in Nevada.
Master panel	An electrical component containing plug-ins and switches utilized in the operation of a keno game. It provides for many automatic functions that limit the possibility of tampering.
Multi-Race Keno	A patron plays the same ticket for a series of consecutive races. Only one inside ticket is generated with a notation on the ticket as to the race numbers for which the ticket is being played.
Off-line Storage	Computerized storage media not on-line with the system (e.g., diskettes, magnetic tapes, computer printout, etc.).
Open	The time between drawings during which tickets are written.

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Original ticket	The ticket submitted for play by the player. This becomes the "inside ticket" when submitted to the keno writer.
Outstation	An annex where tickets are written. This area is separate from where the game is being called and is for the convenience of the patrons and keno runners.
Outside ticket	A duplicate copy of a player's wager. This ticket is prepared by a writer and is given to the customer as a receipt upon which is marked the customer's selection of numbers and amount wagered (also known as a "duplicate ticket").
Paid-outs	The total amount of money paid to players holding winning combinations of numbers.
Progressive Keno	A keno game in which the payoff schedule increases by a predetermined amount for each game without a winner. The amount of the payoff schedule must be posted.
Rabbit ears	A device, generally V shaped, that holds the numbered balls drawn during a game so that the numbers are visible to players and employees.
Race	A sequence of events beginning with the placing of wagers and ending with the payment of winning wagers, identified by a race number (also known as a "game").
Rack	A receptacle for holding the drawn balls. This device is rarely used as an alternative to using "rabbit ears".
Random Number Generator (RNG)	Device used to randomly select the keno numbers. If the generator is an integral part of the system, the entire system and the RNG must be approved as a "gaming device" by the Board and Commission.
Restricted Copy	This is not the printer in the keno department. There should be either a printer located in a restricted area away from keno personnel, or the printer in the keno department should be locked and keno personnel should not be able to access, or there should be some form of storage media that is not accessible to keno personnel.
Run-down	A blank ticket on which is noted the numerical sequence of the drawn winning numbers (also known as the "ball check").
Runner	One who, as a convenience for customers in the casino and restaurant areas, carries tickets, wagers and wins between players and the game.
Sleeper	A winning ticket not presented for payment.

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Source Code	Actual computer programs in readable format.
Way Tickets	A ticket with the spots so grouped as to provide two or more arrangements that are wagered on.
Write	The total dollar amount collected for all tickets written for a specified shift or period.
Writer	A person who writes keno tickets and makes payouts for the establishment.

TERMINOLOGY SPECIFIC TO MANUAL KENO GAMES

The following definitions are applicable for manual keno games:

Book	The inside tickets after they are bound.
Brush game	Another term used to describe a microfilm system. Tickets were originally marked with a brush, then in later years with felt-tip pens.
Closer	A blank ticket on which is stamped a serial number at the close of each game. In many cases, "Game Closed" is also noted on this ticket.
Draw ticket	A blank keno ticket whose numbers are punched out when balls are drawn for the game. By placing the draw ticket over a player's ticket, the winning numbers can be easily identified.
Inside ticket	The keno ticket retained by the house upon which the customer's selection of numbers and amount wagered are marked. It is the wager of record and, as such, payouts are made according to this ticket.
Locked box	A receptacle containing unused two-part keno tickets and the second copy of tickets after they have been written.
Microfilmer	A device utilized to film inside tickets in a microfilm or brush keno system.
Opener	A blank ticket on which is stamped a serial number prior to writing tickets for each game. Each writer makes an opener and the serial number of all tickets written on a game will follow the number on these numbers. In many cases, "Game Open" is also noted on this ticket.
Punch	A device used to make holes in draw tickets according to the balls selected.

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Writer machine A locked device used by a writer to prepare outside and carbon copy keno tickets. The machine is locked and cannot be operated while a game is being called and balls are being selected.

GENERAL

Regulation 6.110(3) states that keno (a "counter game") revenue is defined as the money accepted on events or games that occur during the month or will occur in subsequent months, less money paid out during the month to patrons on winning wagers.

In the computation of gross revenue pursuant to **NRS 463.3715** there are certain items which may or may not be deducted as losses. Any prizes, premiums, drawing, benefits or tickets that are redeemable for money or merchandise or other promotional allowance, except money or tokens paid at face value directly to a patron as the result of a specific wager, **must not be deducted** as losses from winnings at any game except a slot machine. The amount of cash paid to fund periodic payments **may be deducted** as losses from winnings for any game. The actual cost to the licensee of any personal property distributed to a patron as the result of a specific legitimate wager **may be deducted** as a loss, but not travel expenses, food, refreshments, lodging or services. A licensee **may deduct** its pro rata share of a payout from a game played in an inter-casino linked system; additionally, cash prizes and the value of noncash prizes awarded during a contest or tournament conducted in conjunction with an inter-casino linked system **are deductible** on a pro rata basis. See the "Inter-linked Casino Systems" section for a further discussion of deductions related to these systems.

Pursuant to **NRS 463.0161** the term "gross revenue" does not include:

- Counterfeit facsimiles of money, chips, tokens, wagering instruments or wagering credits.
- Any portion of the face value of any chip, token or other representative of value won by a licensee from a patron for which the licensee can demonstrate that it or its affiliate has not received cash.
- Cash taken in fraudulent acts perpetrated against a licensee for which the licensee is not reimbursed.
- Cash received as entry fees for contests or tournaments in which patrons compete for prizes, except for a contest or tournament conducted in conjunction with an inter-casino linked system.
- Cash provide by the licensee to a patron and subsequently won by the licensee, for which the licensee can demonstrate that it or its affiliate has not been reimbursed.

It is important for the auditor to understand how keno revenue flows through a licensee's operations (i.e., so that the audit can be properly planned and performed). A keno game has a board that contains 80 numbers, of which 20 are randomly selected each game by a blower and rabbit ears or by a Board-approved random number generator. The whole objective of keno, at

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least as far as the patron is concerned, is to correctly predict some of the numbers that will be included in the 20 that are selected. There are numerous wagering options available to the patron. Obviously, the payout on a keno wager depends on the difficulty of the bet. For example, a winning 2-spot ticket will result in a smaller payout than a winning 10-spot ticket. The flow of keno revenue for computerized keno, which is much more prevalent than manual keno, starts when a patron presents cash and an original keno ticket (i.e., the ticket the patron prepared) to the keno writer. The writer inputs the patron's selected numbers in the system and gives the patron a computerized printed ticket and places the cash in the cash drawer. If the patron's ticket is a winner, he cashes it out with the writer. The keno system records all the wagering and payout activity that takes place during the shift, usually on a computer diskette that is restricted from keno personnel. The accounting department performs a daily audit of the keno department using reports (e.g., write and payout reports, exception reports, etc.) it prints from the restricted diskette, and other appropriate keno documentation (e.g., the keno tickets). The computerized keno reports are the source for recording keno revenue in the revenue journal and general ledger. Ultimately, the licensee uses the accounting records (e.g., the revenue journal or general ledger) to prepare the tax reports.

The above example is very simplified and is only meant to provide the auditor with a general overview of how keno revenue flows through a casino's operations. Therefore, it is important that the auditor read the casino's internal control system, submitted to the Board, which describes in significant detail how revenue flows through a casino's operations.

There are four basic methods of recording and controlling a keno game:

1. Microfilm
2. Raffsco
3. Videotape
4. Computerized

Currently, only computerized systems are in use.

The objective in all of these methods is to control the inside tickets as to not allow a ticket for a game to be written, altered or destroyed after the results of a game are known. This is accomplished as follows. The microfilm and videotape systems film tickets before the keno balls are drawn. The Raffsco system creates a locked box copy of tickets as they are written. A computerized system involves inputting the tickets written into the computer system prior to the outcome of the keno game. If the licensee's maximum payout on a game will exceed \$250,000, the licensee must operate a computerized system pursuant to **Regulation 5.025** and receive prior Board approval.

The licensee may offer a multi-race keno game. To have a multi-race keno game the procedures must be included in the internal control system. The licensee may also offer progressive keno games. Such games require prior Board approval.

Since the MICS require that certain keno source documents must only be maintained for at least seven days, the audit of keno revenue usually does not involve all the source documents of keno transactions (i.e., tickets) except for those winning tickets for \$1,500 and over. Audit procedures

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should be performed for a recent day, before the documents are destroyed, that require the examination of all tickets written, non-winning tickets and winning tickets less than \$1,500.

FREE PLAY AND PROMOTIONAL ITEMS

The authoritative bases for the tax treatment of free play and promotional items can be found in **NRS 463.0161**, **NRS 463.3715** and **Regulation 6.110**. The following chart summarizes the accounting treatment of some typical promotional items:

<u>Item</u>	<u>Proper Accounting Treatment</u>
Match Play/Discount Wagering	Only cash received in write, deduct all payouts
Free Play Wagering (Negotiable)	\$0 write for free play, deduct all payouts ➡
Free Play Wagering (Nonnegotiable)	\$0 write for free play, deduct all payouts ➡
Non-Cash Prizes	Deduct cost to licensee of non-cash prizes awarded for winning wagers
Promotional Activity Reimbursed by a Third Party	Total \$ amount in write, deduct all payouts
Tournaments/Contests/Drawings	No effect on revenue if not part of an inter-casino linked system
Tournaments which include elements of a normal wager	Total \$ amount of WAGER in write, deduct all payouts, but not tournament prizes
Appeasement Payouts (Payments made on non-winning tickets in response to customer complaints)	NOT deductible

➡ Use of this tax treatment is allowable only if specific record keeping requirements are adhered to.

IN-HOUSE PROGRESSIVE PAYOFF SCHEDULES

Regulation 5.110 addresses in-house progressive payoff schedules. The regulation states that progressive payoff schedules may have limits. Also, the payout indicators (progressive meters) cannot be turned back except for a payout to a customer, the meter going over the progressive limit, or a documented malfunction. The progressive amounts may be transferred to a similar game but this must also be documented. Progressive payoff schedules may be given away through a concluding contest, tournament or promotion if conducted with a game similar to the game from which the amounts are distributed. For the purposes of auditing gaming establishments, no work typically needs to be done with regard to inter-casino linked progressive payoff schedules - this responsibility lies with the operator of the system.

INTER-CASINO LINKED SYSTEMS

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Inter-casino linked keno systems are simply keno games at multiple locations which are linked to a common non-progressive or progressive jackpot or multiple-location player tracking/bonusing systems (excluding player tracking run by a licensee solely for its affiliates). Some inter-casino linked systems are owned and operated entirely by affiliated casinos. Others are operated by a third party for numerous affiliated or unaffiliated casinos. The overall revenue accounting for inter-casino linked systems is really no different than it is for any other keno game. Write is still the total dollar amount collected for all tickets written for a specified shift or period, and payouts are all the cash awards made to a patron on a winning wager.

NRS 463.3715(5) became effective June 22, 1995. This statute specifically allows licensees to deduct their pro rata share of a payout from a game played in an inter-casino linked system except for a payout made in conjunction with a card game. This means that all payouts (including the non-progressive ones that licensees are reimbursed for) associated with the system are deductible. The amount of the deduction must be based upon the written agreement among licensed gaming establishments participating in the inter-casino linked system and the operator of the system. Additionally, all cash prizes and the value of noncash prizes awarded during a contest or tournament conducted in conjunction with an inter-casino linked system are also deductible on a pro rata basis to the extent of the compensation received for the right to participate in that contest or tournament. A participating licensee must have had an active gaming license at any time during the month in which a payout was awarded to be entitled to a deduction. If large progressive payouts are paid out over time, pursuant to **Regulation 5.115**, only the amount of cash used to fund the payout may be deducted from revenue.